CLEVELAND PUBLIC LIBRARY
BUSINESS INFORMATION BUREAU
CORPORATION FILE

APR 5 1940

UNITED CIGAR-WHELAN STORES CORPORATION

ANNUAL REPORT

FOR THE YEAR ENDED

DECEMBER 31, 1939

BOARD OF DIRECTORS

David G. Baird
Walter G. Baumhogger
Louis K. Comstock
Edward A. LeRoy, Jr.
Walter S. Mack, Jr.
Robert J. Marony
Lester G. Ott

* * *

OFFICERS

Walter S. Mack, Jr.	*Chairman of the Board*
Walter G. Baumhogger	*President and Chairman of the Executive Committee*
Lester G. Ott	*Vice President*
Edward E. Cody	*Vice President and Treasurer*
Michel A. Bouvier	*Vice President*
Henry Goldberger	*Vice President*
Harry Rubenoff	*Secretary and General Counsel*
John A. Hampson	*Asst. Secretary and Asst. Treasurer*
Armand J. Toussaint	*Comptroller*

TRANSFER AGENTS

Preferred and Common Stock	Registrar and Transfer Company, New York, N. Y.
Common Stock	Registrar and Transfer Company, Jersey City, N. J.
Common Stock	The Trusts and Guarantee Company, Limited, Toronto, Canada

REGISTRARS

Preferred Stock	Central Hanover Bank & Trust Company, New York, N. Y.
Common Stock	Bankers Trust Company, New York, N. Y.
Common Stock	Commercial Trust Company of New Jersey, Jersey City, N. J.
Common Stock	The Trusts and Guarantee Company, Limited, Toronto, Canada

To the Stockholders of

UNITED CIGAR - WHELAN STORES CORPORATION:

There is submitted herewith the Annual Report of your Corporation for the year ended December 31, 1939, showing the Consolidated Balance Sheet as at December 31, 1939, and Consolidated Statements of Profit and Loss and Surplus for the year certified to by Price, Waterhouse & Co., independent public accountants.

The comprehensive scope of the audit made by Price, Waterhouse & Co. is indicated by their letter of examination and certification which appears on Pages 4 and 5 of this report.

Total current assets at the end of the year amounted to $8,316,549.70, and total current liabilities were $3,385,930.51. The ratio of current assets to current liabilities at December 31, 1939 was 2.46 to 1.

Net sales for the year 1939 were $50,144,843, as compared with $50,273,470 in 1938.

On December 31, 1939, the Corporation had in operation 191 drug stores, 407 cigar stores, and 925 agencies; an increase over the number in operation on December 31, 1938 of 10 drug stores, and 88 agencies, and a decrease of 92 cigar stores. It is expected that the number of cigar store closings in 1940 will be materially reduced.

At the Annual Meeting held August 30, 1939 the holders of a majority of the common stock ratified and approved, among other things, the proposal of the Board of Directors to adjust the net book value of certain furniture, fixtures, equipment and leasehold improvements, and to change the Corporation's policy with respect to depreciation and amortization thereon, all of which was made effective as of June 30, 1939 (see Note D to Balance Sheet).

Loss from operations, after all charges, including bond interest, for the years 1938 and 1939, compare as follows:

Year	*Loss*
1938	$686,532
1939 (see Note page nine)	235,378
Improvement	$451,154

This improvement of $451,154 is due principally to better drug store operations and reductions in overhead expenses. Not all overhead expense reductions made during 1939 were in effect during the entire twelve months of that year—hence, these reductions will be more fully reflected in 1940 operations. Additional substantial reductions in overhead expenses have been made since January 1, 1940.

Both volume of business and gross profit were seriously affected last year as a result of the imposition of cigarette taxes in New York City and New York State, where the Corporation has its largest concentration of stores. On July 1, 1939, the State of New York imposed a 2¢ tax per package on cigarettes which, together with the New York City tax of 1¢ per package, increased cigarette prices in New York City to a point where not only was consumption curtailed, but, also, business was driven to other areas. In order to meet competition on cigarette prices, the Corporation was compelled to absorb part of these taxes. In the opinion of your management, these taxes are unfair and unjust, and a discrimination against retail tobacco dealers and consumers in New York State, and particularly in New York City, and it is hoped that some relief from these tax burdens will be forthcoming during 1940.

In the Annual Report for the year 1938, I outlined a program for the improvement of the Company's affairs. The most important points in that program were as follows:

(1) Better merchandising
(2) Rehabilitation and modernization of stores
(3) Better handling of personnel matters and improvement of personnel
(4) Reduction of overhead expenses.

Merchandising has been materially improved, and will be still further improved this year; the store rehabilitation and modernization program, so far as it applies to drug stores, has been practically completed; overhead expense reductions have been substantial, and as has been stated, there will be additional savings in 1940.

Considerable progress has been made in the very important matter of improving the personnel and personnel morale. It gives me much pleasure to state that I am proud of our organization and of the spirit of loyalty and enthusiasm of our employees.

Your management anticipates there will be a further improvement in results from operations during 1940.

Very truly yours,

WALTER G. BAUMHOGGER,
President.

March 29, 1940

PRICE, WATERHOUSE & CO.

56 Pine Street
New York, March 29, 1940

To the Board of Directors of

United Cigar-Whelan Stores Corporation:

We have made an examination of the balance sheet of United Cigar-Whelan Stores Corporation and its subsidiary companies as of December 31, 1939, and of the related statements of profit and loss and surplus for the year ending on that date. In connection therewith we made an examination of accounting records of the companies and other supporting evidence and a review of the system of accounting control and procedures, by methods and to the extent we deemed appropriate, but we did not make a detailed audit of the transactions.

In conducting our examination we have followed generally the program outlined in "Examination of Financial Statements by Independent Public Accountants," published by the American Institute of Accountants in January 1936, but have not limited our examination to that program. Our examination also included, but was not limited to, specific instructions given to us in a letter dated January 10, 1940 from the President of the company.

Our examination included the following:

Actual count of cash on hand in New York office, Chicago office and at the Brooklyn and San Francisco depots, on or about December 31, 1939. Cash in stores at December 31, 1939, could not be counted by us, but we obtained confirmations from at least ten per cent of your stores as to the amount of cash on hand representing sales on December 30 and 31, 1939, store change funds and charge account funds, if any, at that date.

Reconciliation of cash in banks as of December 31, 1939, as shown by the cash books with certificates obtained directly by us from depositaries.

Test circularization of notes and accounts receivable, merchandise advances to agents, mortgages receivable, notes and accounts payable and agents' deposits.

Test checks of the accuracy of the counts made by your employees of the inventories in the Brooklyn and San Francisco depots.

Review of the method followed in taking store inventories and test checks to determine that your Home Office store inventory records are adjusted to physical inventories of stores as such physical inventories are taken. We determined that physical inventories were taken in each store in 1939 at the rate of at least twice a year. We also made the necessary test checks to assure ourselves that the merchandise inventories as of December 31, 1939 were properly priced at cost or market, whichever was lower.

Test checks of the propriety of additions during the year to fixed assets.

Test checks to determine that the prepaid items included under deferred charges as of December 31, 1939, were proper charges to future operations, and that the other items included thereunder were proper deferred items.

Review of the method used in setting up accrued liabilities and determination that the amounts provided at December 31, 1939, were substantially adequate on the basis of information obtained by us during the examination.

Confirmations by letter from the Trustee of the five per cent sinking fund bonds and from the mortgagees and from the registrars and transfer agents, with respect to the five per cent sinking fund bonds outstanding, real estate mortgage obligations and preferred and common stock, respectively.

Physical count of the five per cent sinking fund bonds and common stock in the treasury of your company.

As explained in the note to the statement of profit and loss, certain adjustments and changes in policy were made effective in 1939, as a result of which the net charges to operations for the year were less by approximately $55,000 than if such adjustments and changes had not been made.

In our opinion, based upon our examination, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the position of the company and its subsidiary companies at December 31, 1939 and the results of their operations for the year 1939, in conformity with accepted accounting principles maintained by the companies on a basis consistent with that of the preceding year except as referred to in the preceding paragraph.

PRICE, WATERHOUSE & CO.

UNITED CIGAR - WHEL

AND SUBSID

CONSOLIDATED BALANC

ASSETS

Current Assets:			
Cash in banks, in transit and on hand		$1,041,702.74	
Notes and accounts receivable:			
Trade	$ 407,143.24		
Other	279,149.21		
	$ 686,292.45		
Less—Reserve for doubtful notes and accounts	31,957.21	654,335.24	
Merchandise inventories at cost or market whichever is lower (certified by responsible executives and officers as to quantity and marketable condition)		5,997,161.72	
Merchandise inventories with agents		623,350.00	
			$ 8,316,549.70
Mortgages Receivable on Real Estate, Less Reserve			51,333.41
Miscellaneous Investments and Claims, Less Reserve			70,351.52
Fixed Assets:			
Real estate owned in fee (see Note A)	$1,448,261.98		
Less—Reserve for depreciation on buildings	36,027.37	$1,412,234.61	
Furniture, fixtures and equipment (see Notes B and D)	$4,214,384.14		
Less—Reserve for depreciation	2,722,735.33	1,491,648.81	
Improvements to leaseholds, less amortization (see Note D)		578,423.16	
Construction in progress		45,585.09	
			3,527,891.67
Deferred Charges:			
Unexpired insurance premiums		$ 84,548.43	
Prepaid rent and lease deposits		93,378.70	
Deferred taxes and prepaid licenses		137,832.13	
Supplies		78,429.72	
Miscellaneous		82,991.29	
			477,180.27
			$12,443,306.57

STORES CORPORATION

Y COMPANIES

HEET — DECEMBER 31, 1939

LIABILITIES

Current Liabilities:			
Notes payable		$ 8,114.09	
Accounts payable		2,602,613.25	
Accrued taxes		386,188.02	
Accrued interest		41,068.75	
Other accrued liabilities		166,787.97	
Provision for Federal income taxes		83,452.75	
Agents' deposits, etc.		97,705.68	
			$ 3,385,930.51
Funded and Mortgage Debt:			
Five Per Cent Sinking Fund Bonds due October 1, 1952:			
Issued, less retired	$2,913,600.00		
Less—In treasury	485,100.00	$2,428,500.00	
Real estate mortgage obligations (including $100,000 demand obligation)		965,000.00	
			3,393,500.00
Capital Stock and Surplus:			
Cumulative Five Dollar Preferred Stock:*			
Authorized—67,000 shares without par value (entitled on dissolution or liquidation to, and redeemable at, $100 per share and accumulated dividends)			
Issuable under the Plan of Reorganization—63,657 shares at stated value of $75 per share (see Note C)		$4,774,275.00	
Common Stock:			
Authorized 6,000,000 shares of ten cents (10¢) par value			
Issuable under the Plan of Reorganization—5,709,924 shares (excluding 12,000 shares held in treasury)		570,992.40	
Capital Surplus (see Note D)		317,413.35	
Earned Surplus for the period July 1, 1939 to December 31, 1939 (see Note D)		1,195.31	
			5,663,876.06
			$12,443,306.57

*Cumulative dividends not accrued on the books or declared to December 31, 1939 amounted to $769,188.75, or $12.08⅓ per share.

UNITED CIGAR - WHELAN STORES CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1939

Note A—Real estate owned in fee is carried at values based on an appraisal at June 30, 1936, by the then head of the Real Estate Department of the company, plus subsequent additions at cost.

Note B—Furniture, fixtures and equipment include approximately $1,900,000 on which the reserve for depreciation is equal to the asset.

Note C—At December 31, 1939 the excess of the liquidating value of the Cumulative Five Dollar Preferred Stock, including dividend arrears, over the stated value of such stock amounted to $2,360,613.75.

Note D—The following proposals, approved by the holders of a majority of common stock on August 30, 1939, were made effective as of June 30, 1939:

(1) That the reserve for contingencies in the amount of $500,000.00 be transferred to initial surplus;

(2) That there be written off to deficit account the net book value of all furniture, fixtures and equipment in cigar stores, exclusive of combination stores, (including cigar store furniture, fixtures and equipment in storerooms), which at June 30, 1939 amounted to $160,971.22, and that there be written off to deficit account the unamortized balance of leasehold improvements to cigar stores, exclusive of combination stores, which at June 30, 1939 amounted to $56,352.91;

(3) That from and after July 1, 1939 subsequent additions to furniture, fixtures and equipment in and leasehold improvements to cigar stores, exclusive of combination stores, be charged to operations as the expenditures are made, and that subsequent transfers of furniture, fixtures and equipment from drug and combination stores to cigar stores be charged to operations at depreciated values when the transfers are made, and that transfers of furniture, fixtures and equipment from cigar stores be not capitalized;

(4) That there be written off to deficit account the unamortized balance of leasehold improvements made to drug and combination stores prior to January 1, 1930, which at June 30, 1939 amounted to $209,536.00;

(5) That the unamortized balance at June 30, 1939 of leasehold improvements made subsequent to January 1, 1930 to drug and combination stores, the leases of which extend for a period in excess of ten years, be adjusted, by a charge to deficit account, to a basis of providing amortization over a period not exceeding ten years from the date of original installation, which adjustment amounted to $38,082.83;

(6) That leasehold improvements made from and after July 1, 1939 to drug and combination stores with lease periods in excess of ten years be written off over a period not to exceed ten years;

(7) That there be charged to deficit account an amount of $174,337.54, representing the net book value of furniture, fixtures and equipment acquired prior to January 1, 1930 in drug and combination stores; and

(8) That the deficit, after giving effect to the foregoing, as of June 30, 1939, which amounted to $736,444.22, be charged to initial surplus as of June 30, 1939, so that the results of operations of the Corporation and its subsidiary companies shall be shown as dating from July 1, 1939.

UNITED CIGAR - WHELAN STORES CORPORATION

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS
FOR THE YEAR ENDED DECEMBER 31, 1939

Store and agency operations:		
Net sales after deducting stamp and sales taxes		$50,144,843.06
Cost of sales		37,993,065.44
		$12,151,777.62
Display advertising, commissions from public telephones, vending machines, etc.		1,554,130.35
Gross profit and other store operating income		$13,705,907.97
Store, depot and agency operating and general expenses (before depreciation and amortization)		13,475,487.19
Profit from store and agency operations, before depreciation and amortization		$ 230,420.78
Profit from real estate operations, before depreciation and amortization		47,385.44
Other income		44,520.79
		$ 322,327.01
Other charges		62,342.45
Profit from operations before depreciation and amortization and bond interest		$ 259,984.56
Less: Depreciation and amortization		373,937.86
Loss from operations before bond interest		*$ 113,953.30*
Less: Interest on Five Per Cent Sinking Fund Bonds		121,425.00
Loss from operations after bond interest		*$ 235,378.30*

Note—As a result of adjustments and changes in policy, principally those outlined in Note D to the attached consolidated balance sheet, the charges to operations for the year 1939 were less by approximately $55,000 than if such adjustments and changes had not been made.

UNITED CIGAR - WHELAN STORES CORPORATION

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1939

EARNED SURPLUS

Balance at beginning of year		$ 87,605.77
Add:		
Refunds applicable to prior years' operations and profit derived from sales of real estate and mortgages receivable, representing excess of amount received over book value thereof		51,804.12
		$ 139,409.89
Deduct:		
Loss from operations after bond interest	$235,378.30	
Write-down of furniture, fixtures and equipment and improvements to leaseholds as at June 30, 1939 (see Note D to Consolidated Balance Sheet)	639,280.50	874,658.80
		$ 735,248.91
Deduct:		
Deficit at June 30, 1939 charged to Initial Surplus (see Note D to Consolidated Balance Sheet)		736,444.22
Balance at December 31, 1939		$ 1,195.31

INITIAL SURPLUS AND CAPITAL SURPLUS

Balance of Initial Surplus at beginning of year	$ 553,857.57
Add: Transfer of Reserve for Contingencies	500,000.00
	$1,053,857.57
Deduct: Deficit at June 30, 1939, as shown above	736,444.22
Balance, representing Capital Surplus at December 31, 1939	$ 317,413.35

HOME OFFICE:

215 Fourth Avenue, New York, N. Y.

* * * *

REGIONAL OFFICES:

2 Vanderbilt Avenue, New York, N. Y.
60 Park Place, Newark, N. J.
327 S. La Salle St., Chicago, Ill.
701 Bryant Street, San Francisco, Cal.

* * * *

WAREHOUSES:

Bush Terminal, Brooklyn, N. Y.
701 Bryant Street, San Francisco, Cal.

CIGARS
UNITED
DRUGS
WHELAN